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HRI Food Service Sector

Report

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Report Highlights:

This report is a market analysis of the HRI sector in Costa Rica, including imports of food and beverage products, distribution channels, market structure and main product prospects.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
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I. EXECUTIVE SUMMARY

Per capita income in Costa Rica is among the highest in Latin America. In year 2000 Costa Rica imported US\$1.88 billion worth of agricultural and food products, 59.6 per cent of which came from the United States (US\$1.12 billion). Thus, Costa Rica was a significant destination for U.S. exports. (For a breakdown of imports per country see Exhibit 1.)

In the last few year significant change has taken place in the structure, income, and price of goods in Costa Rica as a result of change in consumer tastes and the increase in women participation in the labor force. In addition, demand has been fueled by an increasing per capita income, higher urban concentration, extensive expansion of the tourism sector, and ever-increasing change in the lifestyle of the Costa Rican population. In fact, continuous increase of 4 and 6 percent is expected in both demand and domestic consumption for the next few years.

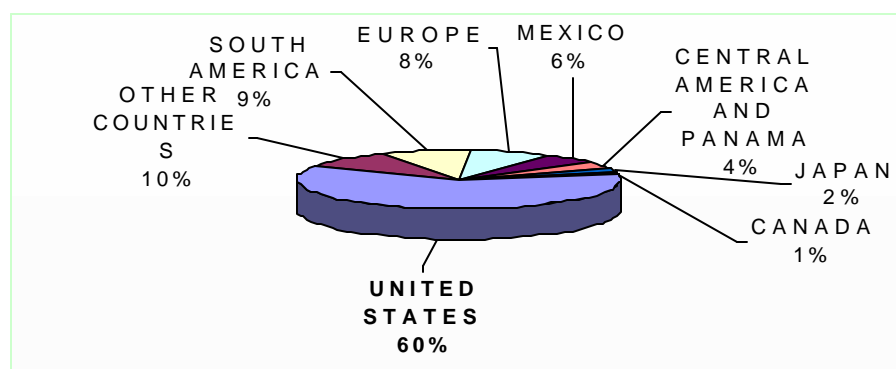
Currently tourism accounts for the main source of foreign exchange in Costa Rica. Since 1997, tourism has been growing, on average, 15 per cent per year. Both the government and the business sector strive to provide the best environment to foreign tourists, emphasizing peace, safety, and economic stability “We love peace” is the sector slogan. In the last few years, the government has strengthened investment in infrastructure, particularly roads, airports, and seaports. On the other hand, large tourism projects have been undertaken by the private sector, focusing on eco-tourism to some extent. Thus, Costa Rica has been able to attract significant foreign investment in the tourism sector. As a result of a stronger economy in the last few years and the rapid increase in the tourism sector, the demand for imported products from developed countries has been increasing, even despite some erosion in the country’s economy for the last year.

Costa Rica has a significant food service sector (hotels, restaurants, and institutions - HRI) with considerable development potential. In the last year, this sector accounted for 11,9 per cent of the country’s gross domestic product (US\$15,7 billion) and growth of at least 11 per cent is expected for year 2001. This would imply estimated sales of US\$1.5- US\$2,0 billion. Globalization and the creation of large MNCs focusing on this sector have favored the HRI market. Fierce competition has been taking place in the last few years in the HRI sector, resulting in higher competitiveness levels. Main suppliers in this sector are foreign business firms with directs sales. However, independent local importers and distributors have also emerged.

Fast-food restaurants, specially those franchised, have expanded rapidly. Eating out accounts for 25% of food expenses at present. The upper middle class takes an interest in foreign cuisine, and is fond of imported foods.

EXHIBIT 1

AGRICULTURAL AND FOOD IMPORTS PER COUNTRY(PERCENTAGE)



Source:
Banco
Central de Costa Rica and Ministerio de Agricultura y Ganadería

<http://www.bccr.fi.cr/> <http://www.infoagro.go.cr>

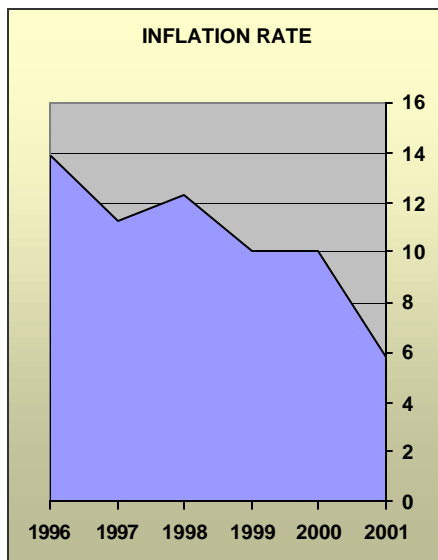
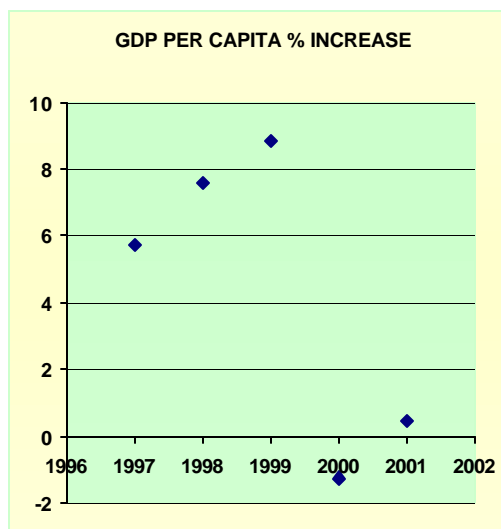
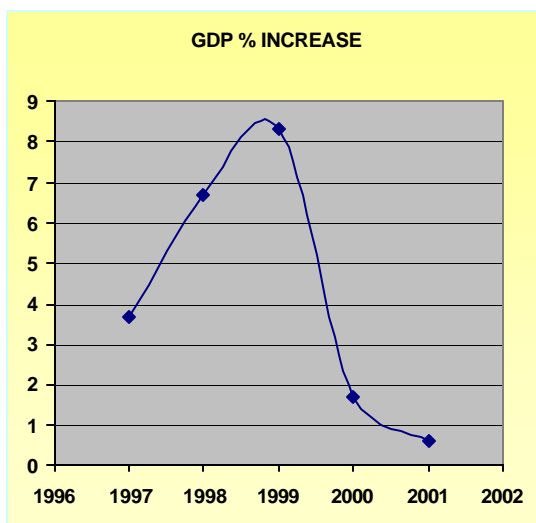
II. ECONOMIC STATUS

Costa Rican economy has been deteriorating beginning in year 2000, with a decrease in the momentum it had previously shown. The country Gross Domestic Product (GDP) significantly slowed down as compared to the previous year, decreasing from a 8.3% growth rate in 1999 to 1.7% in year 2000, with an expected growth rate of just 0.6% for year 2001. In spite of this, income per capita in Costa Rica remains among the highest in Latin America.

The performance of Costa Rican economy in year 2001 has been influenced by the international milieu. In connection with this, the slowdown in the U.S. economy, the uncertainty regarding its size and length, and its impact on the world's economic growth have been significant causes of the loss of momentum of production in this period. One more element in this gloom prospect is the terrorist attack to the WTC in New York and the likely consequences of war on terrorism. Add to this negative international market environment for some key products of Costa Rica, such as banana and coffee.

On the other hand, both inflation and the open unemployment rate have decreased, as a positive result of in-country microeconomic and production management. See Exhibit 2 for change in the GDP, per capita GDP, inflation and unemployment level in the last few years.

EXHIBIT 2
GDP INCREASE, GDP PER CAPITA, INFLATION AND
UNEMPLOYMENT RATE



Source: Banco Central de Costa Rica. <http://www.bccr.fi.cr/>

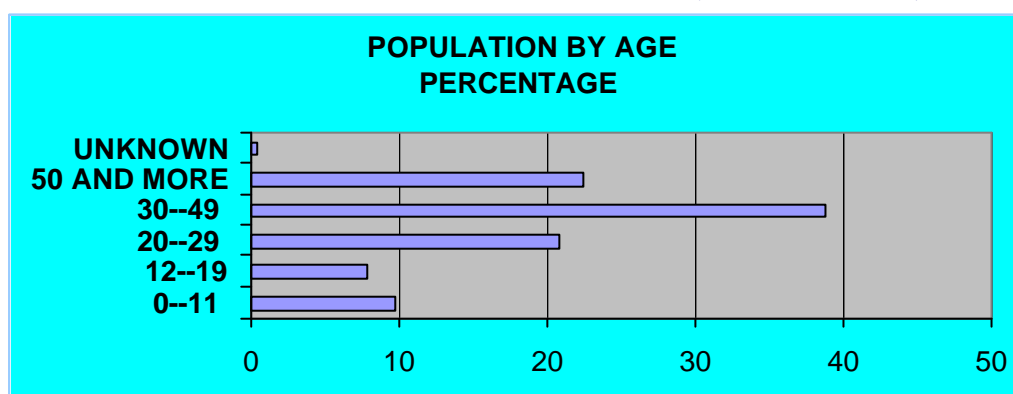
III. GENERAL MARKET ANALYSIS

III.1. POTENTIAL MARKET

III.1.1. CONSUMER CHARACTERISTICS

The population of Costa Rica reached 4,030,000 inhabitants in early year 2000. The country is divided into 7 provinces. However, 64% of the population lives chiefly in the Central Valley, in four provinces and over 600 residential areas. A strong demand for fast foods and ready foods exists here, as well as for institutional food service for schools, hospitals, and recreation centers. Most of the population is in the 30-49 age range; 60% is found in the 20-49 group. In terms of gender, 49% are male and 51% female. As shown in Exhibit 3, the bulk of the country's population is in a mature age group, in contrast with other less developed countries having younger population nucleus. Significant reasons for this relative aging include the country's health system, reflecting in a life expectancy at birth which is among the longest in the world, and a national birth control program begun in the 60s, which led to a decrease in the country's birth rate. Costa Rica annual rate of population growth is 2,2%.

EXHIBIT 3
POPULATION DISTRIBUTION BY AGE (PERCENTAGE)



Source: Instituto Nacional de Estadística y Censos. <http://www.inec.go.cr/>

Younger (young adult) citizens are the ones driving the growth of service and fast-food outlets. Recent economic recession has resulted in a relative shift in sales, away from more expensive restaurants and toward low-price/fast-food.

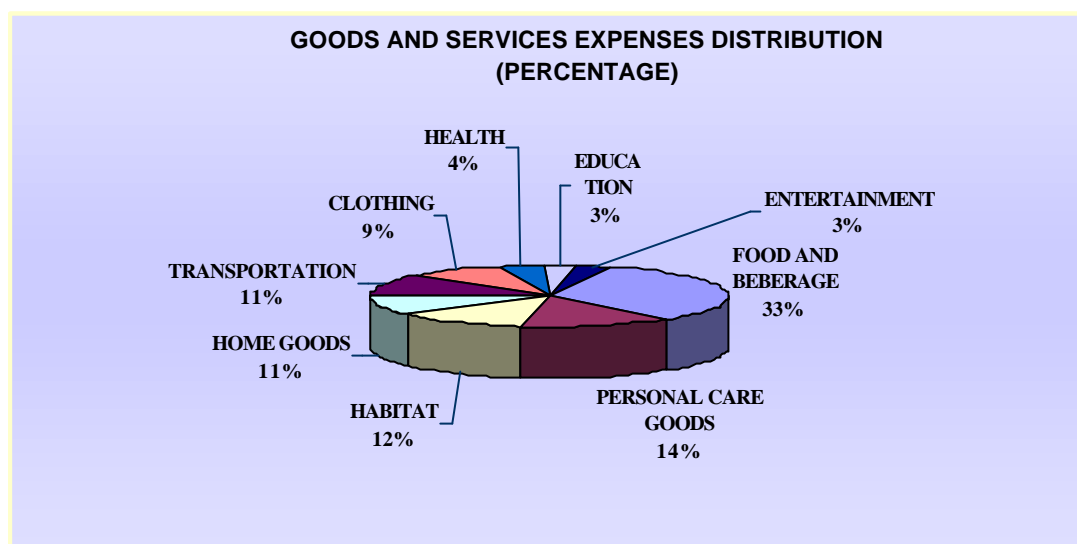
In terms of expenditure in goods and services, Costa Ricans spend 33% of their income in food and beverages. Exhibit 4 details the average distribution of family expenditure between goods and services.

On the other hand, average monthly expenditure in food is as follows:

Upper class	US\$400-800
Middle class	US\$130-300
Lower class under	US\$100

The upper class comprises 10% of the population; the middle class accounts for 60% and the remaining 30% is made up by the lower class. The middle and upper class, devoting around 15% of their income in hotel and restaurant services, are an attractive segment to companies marketing imported goods.

EXHIBIT 4 DISTRIBUTION OF EXPENDITURE, GOODS AND SERVICES (PERCENTAGE)



Source: Instituto Nacional de Estadística y Censos. <http://www.inec.go.cr/>

III.1.2. HOTELS

In year 2000, the average occupancy rate in Hotels was 60% (up from 50% in 1999), with foreign visitors accounting for 65% of total guests. Social and business activities carried out in hotel facilities are increasing by the day, thus strengthening and providing benefits to this sector. The average room rate in Costa Rica is US\$85, with a threshold of US\$35 and a top of US\$215. By international standards, top-quality hotel rates in Costa Rica are low. Food and beverages account for 35% of profits in the hotel industry. Top quality hotels and restaurants and fast-food chains are the largest purchasers of imported products. On the other hand, hotel chains have shown interest in keeping an adequate inventory of goods, and are willing to import them directly.

III.1.3. RESTAURANTS

A large number of first-class restaurants offer varied international menus. Many of them also offer ethnic cuisine. On the other hand, there is a large quantity of fast food, fast-service restaurants including Burger King, McDonald's and Pizza Hut. These have captured a significant segment of Costa Rican consumers, and account for almost a third of the Costa Rican market.

All of this reflects a change in consumption habits toward ready-to-cook and ready-to-eat foods. Thanks to its characteristics, the Costa Rican market has served as a field for pilot projects to many of these fast-food chains, in order to test the market prior to entering other global markets.

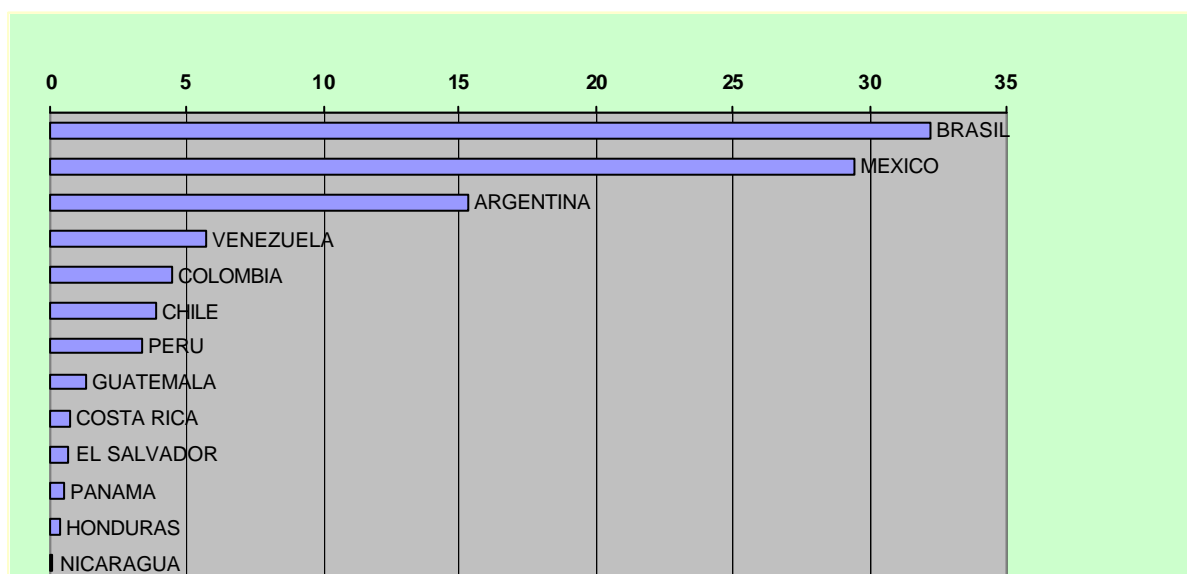
III.1.4. INSTITUTIONS

The institutional market has a significant demand for food products. Government organizations prefer buying locally-produced goods. However, when the local market can not supply them or for quality reasons, goods are purchased in the international market. The existence of top-quality hypermarkets has resulted in higher demand for high-quality European and American products marketed at competitive prices. Hypermarkets have developed new brands as well as new products such as fast and frozen foods.

III.1.5. LOCAL PRODUCERS AND ECONOMIC PERSPECTIVES

The industrial sector, on the other hand, experienced a 7,7% fall over the previous year, as a result of lower exports and the impact of economic recession. Positive growth is expected for the year 2002. Total imports grew 15% in year 2000 and imports of food products amounted to 14% of national consumption. In that same year, imports of food and agricultural products amounted to US\$1.88 billion, accounting for 29.4% of total Costa Rican imports. Imports of these items from the United States accounted for US\$1.12 billion. Costa Rica is the ninth largest market for Latin American food and agricultural products. This is a conclusion arrived on the basis of its contribution to Latin America's gross domestic product (See Exhibit 5.)

EXHIBIT 5
LATIN AMERICA GDP-PERCENTAGE CONTRIBUTION PER COUNTRY

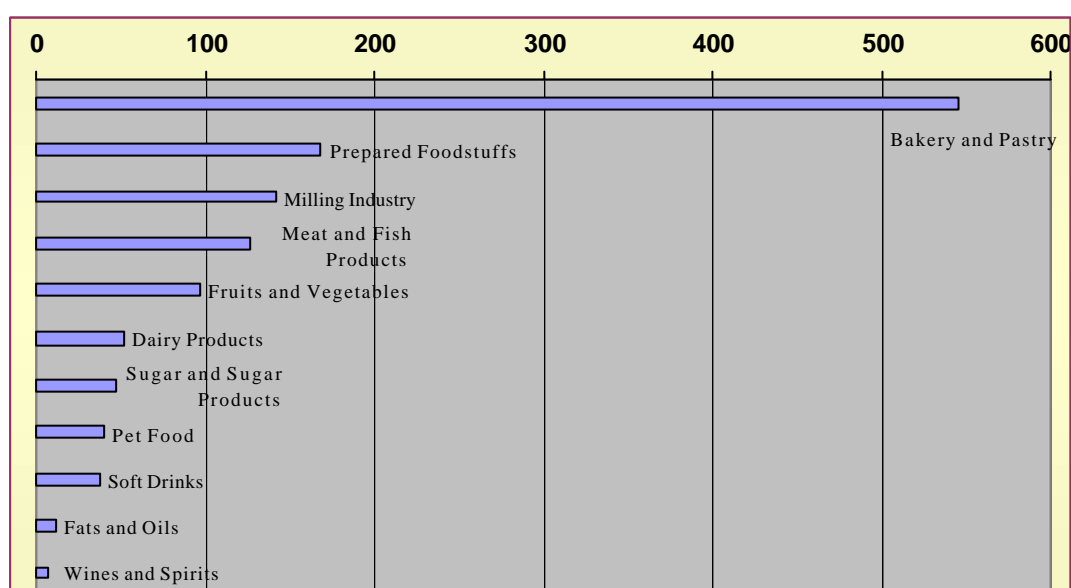


Source: Banco Central de Costa Rica. <http://www.bccr.fi.cr/>

Costa Rica is a good producer of processed foods. A significant percentage of food-processing firms are subsidiaries of international companies and handle a significant portion of the local market. Some of them carry internationally-known brands of goods produced either locally or by foreign business firms. The food industry accounts for one of the largest economic sectors in Costa Rica, with 37.7% of industrial production. Bakery and pastry

processors comprise the largest group of firms in the food and beverage sector in Costa Rica (546), followed by prepared foodstuff (168), milling industry (141) and meat and fish products (127) (See Exhibit 6)

EXHIBIT 6
BUSINESS FIRMS IN THE FOOD AND BEVERAGE SECTOR
 (Quantity per type)



Source:
 Cámara
 Costarricense
 de la
 Industria

Alimentaria. [http:// www.cacia.org](http://www.cacia.org)

Several Costa Rican business firms are leading companies in the food and beverage sector, some of them not only locally but also all over Latin America. Corporación Supermercados Unidos (CSU) owning several supermarket chains, ranks second among the 200 most significant firms in Latin America. The Cooperativa de Productores de Leche Dos Pinos, engaged in manufacture and distribution of dairy products, ranks seven (See Exhibit 7)

EXHIBIT 7
MAIN BUSINESS FIRMS IN THE FOOD AND BEVERAGE SECTOR
 (US\$ MM SALES)

FIRM	US\$MM Sales
Corporación Supermercados Unidos (Más X Menos)	642
Cooperativa de Productores de Leche Dos Pinos	222
Florida Ice & Farm	154
Gruma Centroamericana S.A.	103
Embotelladora Panamco Tica	102
Corporación Pipasa	84
Peribásicos	49
Fabrica Nacional de Licores, FANAL	32
Ingenio Taboga	23
Compañía Costarricense del Café	17
Cinta Azul S.A.	13
Melones del Pacífico	3

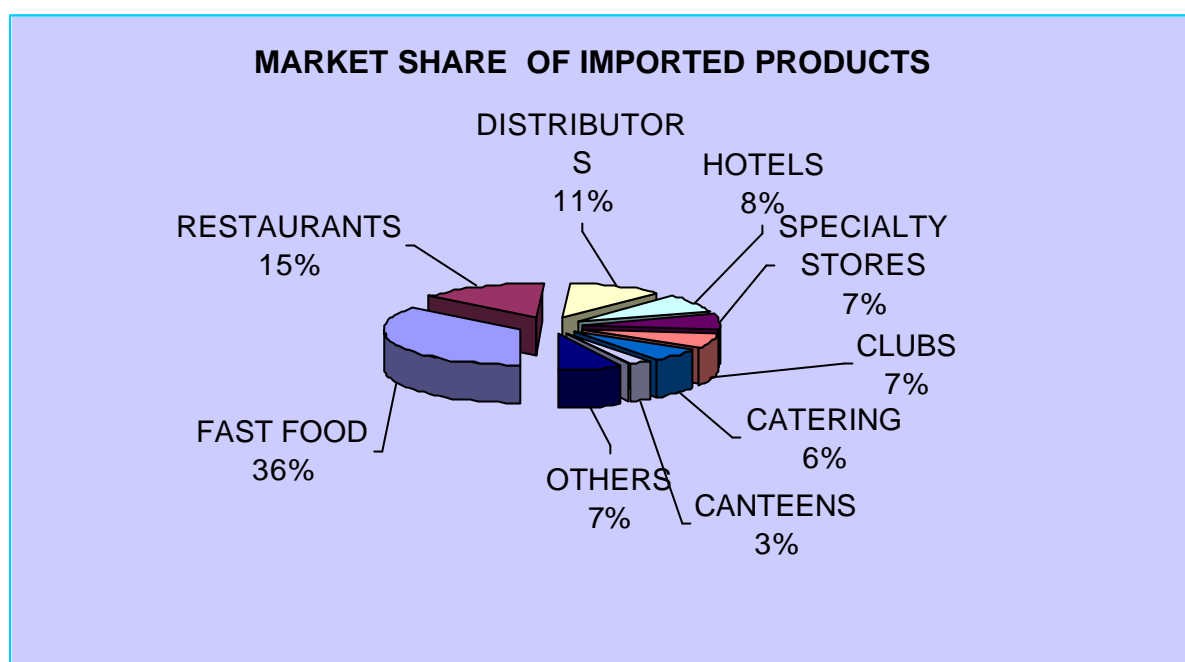
Source: Las 200 empresas más grandes de la región- Estrategia & Negocios, Septiembre 2000.

Although economic growth decreased in relation to previous years, a positive closing will take place in year 2001. Domestic demand and family consumption are projected to increase 5% and 8%, respectively, in year 2001. Economic statistics for the first semester reinforce these projections, inflation reached 10% and the hotel and restaurant industry grew 4%. The hotel and restaurant industry accounted for 12% of the country's GDP in year 2000 and a 14% growth is expected for year 2001. The Costa Rican currency (colón) underwent a 13% devaluation in year 2000 and a 7% devaluation is expected for the year 2001. The country's Central Bank administers monthly minidevaluations to keep the country's economy stable.

III.2. FOOD AND BEVERAGE IMPORTS

Most food and beverage imports from the United States are made by established import/distribution companies. Imported goods replace local ones, especially when there is a significant difference in terms of price and quality. Consumers show a clear bent for foreign goods. In terms of the market share of imported-products fast food restaurants accounted for 36%, followed by traditional restaurants with 15%, distributors with 11% and hotels with 8%. (See Exhibit 8)

EXHIBIT 8

PER-SECTOR MARKET SHARE OF FOOD IMPORTS

Source: Cámara Costarricense de la Industria Alimentaria. <http://www.cacia.org/>

Statistics show 38 products as those most imported from a wide variety of countries. These comprise crackers and cookies, nuts, season fruit, oil and margarine, rice, onion, beans, syrups, turkey, pasta, and others. See Exhibits 9 and 9bis for a list of most commonly imported products and list of most consumed imported products per social class.

EXHIBIT 9
COMMONLY-IMPORTED FOOD PRODUCTS

SNACKS	BAKERY	SEASONING PRODUCTS	DAIRY PRODUCTS	VEGETABLES/ FRUITS	SEAFOOD	MEATS
Biscuits Jellies Crackers Cereals Candy Popcorn	Cake mixes Nuts Pudding Bagels Flavor enhancers	Salad dressings Ketchup Mayonnaise Spaghetti-pizza Sauces Dry-mix sauces	Cream Syrup Cheese Margarine Additives Olives Juices	Rice Beans Potatoes Onions Apples Grapes	Caviar Anchovies Oysters Salmon	Pork Ham Sausage Beef Turkey

Source: Cámara Costarricense de la Industria Alimentaria (CACIA). <http://www.cacia.org/>

EXHIBIT 9 BIS
MOST CONSUMED IMPORTED FOOD PRODUCTS
(ARRANGED PER SOCIAL CLASS)

MIDDLE CLASS	UPPER CLASS
Beer, Wines, And Liquors	
Snacks	Canned Food: Champignons, Soups, Tomato Paste, Mushrooms, Peeled Whole Tomatoes, Garlic, Onion, Pizza Sauce, Bilberry Sauce, Apple Sauce, Salmon, And Olives
Nuts	Almonds And Raisins
Canned Soft Drinks	Oils
Canned Food: Salmon, Olives, Asparagus, And Capers	Pasta
Sauces: Mayonnaise, Ketchup	Seasoning Products
Sausages	Cereal
French Fried Potatoes	Dehydrated Fruit
Cheese	Fresh Fruit
Canned Juice. Plastic- And Glass-bottled Juice	Cheese: Feta, Roquefort, And Masdam
Hydrating Products: Red Bull	Juice
Cereal	Powdered Cocoa
Chocolate And Candy	Vinegar
Oil	Sweeteners
Vinegar	Canned Vegetables
Pies	Olives
Sweeteners	Sauces: Mayonnaise, Tomato Sauce, Tartar Sauce, Garlic Sauce, Curry Sauce, And Chinese Sauce.
Cookies	Beer, Wines, And Liquors
Fruit	Seeds: Sunflower And Pistachio
Pasta	Nuts
Marmalade	Cookies
Flan And Jelly	Canned Fruit
	French Fried Potatoes
	Salmon
	Seafood
	Marmalade
	Sausages
	Canned Vegetables
	Chocolate And Candy

Even though Costa Rican economy is among those most open in Latin America, with average agricultural tariffs of 11 %, a select number of agricultural goods has high import tariffs.

These result from political protection for national producers as a consequence of subsidies to agricultural goods in some developed countries, particularly the European Union and the United States. High import tariffs are noticeable in the case of some key products such as poultry, dairies, onion, potato, rice, beans and sugar cane (See Exhibit 10)

EXHIBIT 10
IMPORT TARIFF FOR SELECTED AGRIBUSINESS PRODUCTS

PRODUCT	TARIFF (%)
Poultry	150-160%
Dairy products	80%
Onion	48%
Potatoes	48%
Pre-fried potatoes	40%
Rice	35%
Beans	30%
Sugar	48%

Source: Ministerio de Agricultura y Ganadería and Dirección General de Aduanas

Processed goods imported in large quantities from the United States in year 2000, in order of their importance, include margarine, vegetal essences, apples, crackers and cookies and cakes (see Exhibit 11)

EXHIBIT 11 MAJOR PROCESSED FOODS IMPORTED FROM THE U.S. (YEAR 2000)

PRODUCTS	US\$ MM
Margarine	65
Vegetable saps and extracts	55
Apples	55
Bread, pastry, cakes and biscuits	46
Frozen juice concentrates	39
Miscellaneous food preparations	25
Processed chicken	24
Cat and dog food	22
Powdered milk	21
Baby food	15
Juices of any single fruit or vegetable	15
Breakfast cereals	15
Frozen pork	10
Peaches and nectarines	8
Fresh and processed cheese	8
Sparkling and grape wine	5
Frozen beef	5
Dry peas	3

Source: Banco Central de Costa Rica and Dirección General de Aduanas

III.3. DISTRIBUTION CHANNELS

Different distribution or representation firms Costa Rica engage in activities ranging from import to door-to-door distribution. One of the largest is CSU, a strong leader in the domestic market, followed by Grupo Constenla and Distribuidora Pedro Oller S.A. Generally speaking, distribution firms play a significant role in supplying business firms in the local food and beverage market (See Exhibit 12)

EXHIBIT 12 MAJOR FOOD IMPORTERS AND DISTRIBUTORS

IMPORTER/DISTRIBUTOR	PRODUCTS	U.S. \$MM
Corporación Supermercados Unidos	All sorts of food products, especially grains and canned goods	250,0
Grupo Constenla s.a.	All sorts of food products, groceries and canned goods.	80,0
Distribuidora Pedro Oller S.A.-DIPO	All sorts of food products, groceries, grains, canned goods, wines and liquors	68,0
Mendiola y Compañía	All sorts of food products, grains, groceries, wine, and liquors.	56,5
Mercadeo Unido- Unimar	All sorts of foods.	45,5
Distribuidora Isleña de Alimentos	All sorts of food products. Olives, oils, wines, nectars.	38,5
Cadena de Detallistas San José S.A.	All sorts of groceries, grains, canned goods, oils, margarine.	36,0
El pelón de La Bajura	Grains and groceries.	35,0
Comercializadora Arca	Powdered drinks, and other goods such as cheese and honey.	32,0
Comproun S.A.	Crackers and cookies, seasoning products, flour, vinegar and oils.	31,5
Distribuciones G B S.A.	Assorted chocolates, candy, chewing gum and canned goods.	28,9
Distribuidora Banquete de Costa Rica	Pasta, sauce, canned goods.	25,4
Caroma S.A	All sorts of groceries, grains, wines, sauce and liquors.	23,2
Ricoche S.A.	Snacks, juice, candy, canned goods, liquors.	21,5
Warner Lambert	Chewing gum and candy.	20,2
Distribuidora Irazú	Snacks, crackers and cookies, candy, chewing gum, assorted chocolates.	18,1
Distribuidora Lucema.	Pasta and other food products.	15,0
Kampville S.A.	Food products, groceries, crackers and cookies, seasoning products and oils.	13,5

Source: Cámara Costarricense de la Industria Alimentaria. <http://www.cacia.org/>

IV. MARKET AND SUBSECTOR STRUCTURE

IV. 1. HOTELS

Costa Rica has 435 hotels with 26,000 rooms available. Between July 2000 and June 2001 the country received 1,170,000 foreign tourists and 450.000 local tourists. Best-positioned local hotels include Gran Hotel Costa Rica, Hotel El Rey, and Hotel Bougainvillea. Also, a large number of large international hotel chains operate in Costa Rica. These include Meliá, Barceló, Marriott, Holiday Inn, Real Intercontinental, Choice, Radisson, Best Western,

Hampton Inn and Occidental. Hotel service in Costa Rica is world-quality, and daily rates range between US\$35 and US\$215. (See Exhibits 13 and 14)

EXHIBIT 13
MAIN HOTELS IN COSTA RICA

HOTEL NAME	UNITS	LOCATION	HOTEL NAME	UNITS	LOCATION
Gran Hotel Costa Rica	1	San José	Hotel Siesta	1	Guanacaste
Hotel El Rey	1	San José	Hotel Ambassador	1	San José
Hotels Chalet Tirol	1	Heredia	Hotel Herradura	1	San José
Hotel Balmoral	1	San José	Hotel Del Sur	1	San Isidro del General
Hotel Punta Islitas	1	Guanacaste	Hotel Tamarindo Diría	1	Guanacaste
Hotel Las Espuelas	1	Guanacaste	Hotel Bougainvillea	1	Heredia

Source: Cámara Costarricense de Hoteles

EXHIBIT 14
INTERNATIONAL HOTEL CHAINS IN COSTA RICA

HOTEL NAME	UNITS	LOCATION
Hotels Barceló	8	San José, Playa Tambor, Puntarenas and Guanacaste
Hotels Holiday Inn	1	San José
Hotel Camino Real Intercontinental	1	San José
Hotels Best Western	4	San José and Puntarenas
Hotels Marriott	4	San José and Puntarenas,
Hotels Meliá	4	San José and Playa Conchal
Hotels Occidental.	5	San José, Heredia, Guanacaste, Puntarenas and San Carlos
Hotel Radisson	1	San José
Hotel Choice	1	Santa Ana
Hotel Hampton Inn	1	Alajuela

Source: Cámara Costarricense de Hoteles

IV.2. RESTAURANTS

Some 10,000 food and beverage outlets are thought to exist, including restaurants, coffeehouses, coffee shops and other smaller, informal outlets. Officially, only some 6,000 are registered. These business units are found everywhere in the country in sites such hotels, malls, clubs, business firms, national parks, tourism centers and hospitals.

Although top-quality restaurant had good sales in year 2000, significant relative growth is seen in the case of fast-food, fast-service restaurants, whose market share has been increasing yearly. Both local and foreign fast-food chains are undergoing rapid expansion. Among most popular of these are Burger King, Mac Donald's, Pizza Hutt, Rosti Pollo, KFC, Pollos As de Oros, Taco Bell, Pollo Campero and Spoon (See Exhibit 15)

Fast food, fast-service restaurants are generally located near work areas and main residential zones. This has led to fierce competition that benefits consumers. Investment in advertisement campaigns have been key to increase market share and to take leading positions in the fast-food sector in Costa Rica. On the other hand, these restaurants have become a major source of support for working women, who are occasionally prevented from cooking. In the same vein, frozen or ready foods in supermarkets and hypermarkets are beginning to play a role, although at a much lower level than they do in developed countries.

EXHIBIT 15 MAJOR FAST FOOD CHAINS IN COSTA RICA

COMPANY	SALES US\$ MM	OUTLETS	COMPANY	SALES US\$ MM	OUTLETS
Burger King*	18.5	24	2 x 1 Pizza	3.9	15
Mac Donald's*	15.3	24	Quizno's*	3.6	8
Pizza Hutt*	12.0	28	Antojitos	2.9	8
Rosti Pollos	10.4	10	China Express	2.3	4
KFC*	10.0	12	La Princesa Marina	2.1	5
Pollos As de Oros	8.4	18	Papa Jone's Pizza	1.4	6
Taco Bell*	6.5	9	Rústico	1.3	8
Pollos Campero	6.2	9	Hardees's	1.2	3
Spoon	4.8	11	Hamburguer Factory	0.9	3
Subway*	4.0	8	Pollos Pío Pío	0.9	15

*Franchising

IV.3. INSTITUTIONS

IV.3.1. EDUCATION

Costa Rica has 1,1 million students ranging from pre-school to college level. Of these, 26% are registered in private schools. 50% are undergoing basic education (under ninth year.)

The Costa Rican government sponsors different food support programs, especially for children attending public schools. This way, poor children are given food supplements right at school, to prevent nutrition insufficiency. CEN-CINAI, together with the Public Education Ministry, is in charge of this program, with an annual budget of US\$2 million, and a 9% yearly growth.

On the other hand, food is sold in most public and private schools, with an average price of US\$2-US\$3 per meal. In addition, vending machines provide cold and hot drinks (coffee, chocolate, and tea) as well as soft drinks. Coffee shops or coffeehouses are found in virtually every main educational center from elementary to college, selling drinks and processed foods.

IV.3.2. HEALTH

Costa Rica has 33 hospitals (both public and private) with 6,000 beds. Estimated annual food and beverage budget in hospitals amounts to nearly US\$11 million. There is a 300:1 bed-patient ratio.

American products most likely to be purchased in this segment are diet goods and those recommended for health reasons. Major factors in the sale of these include quality and competitive price.

IV.3.3. PUBLIC SECURITY

Although Costa Rica does not have an army, it has a police force trained to keep public order and provide safety to citizens and their properties. Currently there are 15,500 people in the police force of Costa Rica. Yearly food and beverage budget for these amounts to US\$22,3 million. Daily per capita budget equals US\$4,0. In the last few years, the Ministry of Security has been developing a program to improve food service for the police, as well as to provide better food, in line with the type of work carried out by this group.

IV.3.4 PARKS, AMUSEMENT CENTERS, AND ENTERTAINMENT

Several amusement centers and parks exist in Costa Rica. In addition to a large amusement park, the country has 14 museums, 33 national parks and 4 zoos attracting a large number of visitors. Sales in this sector amount to approximately US\$700,000.

IV.3.5. JAILS

Costa Rica's 28 jails hold over 7000 imprisoned people; in addition to 3,000 watchmen and 800 jail officers. Yearly food budget from the Ministry of Justice amounts to US\$30 million.

IV.3.6. COUNTRY CLUBS, URBAN CLUBS AND MEETING SITES

Costa Rica has over 40 country and urban clubs. Estimated sales in this sector are around US\$5 million. Common products used in this sector include sauce, liquors, turkey, spices, and nuts, among others (See Exhibit 16)

EXHIBIT 16
TYPICAL IMPORTED GOODS USED BY CLUBS

Salmon	Sausages	Bagels	Liquors
Vegetables	Hams	Saffron	Nuts
Caviar	Turkey	Spices	Pistachio
Anchovies	Olive oil	Salad	Cheeses
Other seafood	Fats	Vinegar	Candy

Source: Cámara Costarricense de Restaurantes y Afines

V. COMPETITION

American products are, on average, more expensive than local ones. However, they have a stronger demand from consumers, especially those in the middle and upper class. Some fast-food restaurant chains bring their raw materials from the United States to meet quality standards from their parent companies. Costa Rica has reached free-trade agreements with different countries, besides tariff and trade preferential agreements reached with other

Central American countries. Current free trade agreements include those with Mexico, the Dominican Republic and Chile. In addition, it is just about to sign one with Canada. Costa Rica is a beneficiary of the CBI and actively promotes the Americas Free Trade Agreement (ALCA), likely to be in effect beginning year 2005.

Competition in the HRI is strong, given trade openness and development of the domestic food sector in the country. This is particularly true for the following products and firms:

PRODUCT	COMPANY
Everyday products	Alpina, Katadin, Luisiana, Los Tiernos.
Cereals	Kellog's, Nestle, Quaker
Snacks	Jack's, Tosty, Diana.
Baked goods (bread)	Levapan, Bimbo, Musmanni
Oils and margarines	Numar, Dos Pinos, Coopecoronado
Sauce, mayonnaise, ketchup, mustard, jelly and seasoning products	Lizano, Banquete, Alfaro, Mc Cormick, Royal, Gelada.
Animal and pet food	Purina, El Rey, Almosi, Ascan

VI. MAIN PRODUCT PROSPECTS

In the last year food imports decreased as a result of economic recession. However, this is expected to improve in year 2001. Although the Costa Rican HRI market is not still significant in global terms, it has potential as a result of economic and social development, as well as of tourism activity in the country.

A list of import goods with the strongest demand follows:

WINES AND LIQUORS	GRAINS	DRY MIX SAUCES
Fruit	Juices	Vinegars
Turkey	Fish	Salad dressings
Cheese	Ham	Spices
Bakery	Dietetic products	Vegetable oils
Sausages	Cereals	Pasta
Vegetables	Meat	Snacks

VII. CONCLUSIONS REGARDING THE FOOD SERVICE MARKET - HRI

The Costa Rican food and beverage market provides good opportunities to American products and firms. For a more effective approach to market by interested parties, we list below advantages and challenges to firms and individuals entering the market. In addition, we provide some recommendations resulting from research and interviews in the sector.

VII.1. ADVANTAGES FOR U.S. FIRMS AND PRODUCTS

- **Costa Rica is strategically located right in the middle of Latin America. This provides opportunities to supply other Latin American countries.**
- **Costa Rica is admittedly the most peaceful country in the world.**
- **Costa Rica has one of the highest per capita income in Latin America.**
- **Costa Rica is attracting FDI from MNC's as INTEL. It is also becoming the administrative and operation center for several International Missions and MNC's. The most recent one is the relocation of Procter & Gamble's Administrative Head Quarter for the Americas.**
- **The middle and upper class in Costa Rica are eating out more frequently (at least twice per month), devoting 15% of their income to this purpose.**
- **Changing lifestyle plus the participation of women in the labor force are leading to an increase in the demand for value added in food and beverage products.**
- **Most international fast-food business firms are participating in the Costa Rican market.**
- **Popular American products are welcomed by Costa Rican consumers, as they are seen as good quality, healthy products.**
- **Economic recession in year 2000 hit small-scale restaurants. The top-quality restaurant sector is doing rather fine and expects better results for year 2001. On the other hand, fast-food restaurants are growing rapidly, taking a significant market share away from traditional restaurants.**
- **The Costa Rican HRI sector has a large growth potential, led by the tourism sector. Tourism is, perhaps, one of the most significant economic sectors in Costa Rica.**
- **Costa Rica is implementing a dynamic tourism plan, specifically designed to attract foreign tourists, without neglecting local tourists, which are significant in terms of the sector income. Within this context it is important to consider that shared-time vacation plans are very popular among tourists**
- **Some large international hotel chains are operating in Costa Rica. Costa Rican hotels provide service meeting international standards.**
- **The devaluation of the Costa Rican currency (colón) makes the country very attractive to international tourists, as it increases their purchasing power. The United States retains the first place in terms of Costa Rican imports, with 59,6% of food and agricultural imports coming from there.**
- **Multinational companies operating in Costa Rica are taking advantage of their brand names to place in the market new products aimed at the food service sector (HRI).**

VII.2. CHALLENGES TO U.S. FIRMS AND PRODUCTS

- The HRI sector has taken advantage from the arrival of hypermarkets such as PriceSmart, HiperMás, Yaohan, Automercado, Saretto, Mega Super and Más X Menos, serving all market segments with a wide variety of products at competitive prices.
- To meet the increasing competition from foreign goods, American products must be high-quality and they must be sold at competitive prices. In addition, they need effective support in terms of service. Food products from main food companies in Costa Rica are high-quality, and they have ISO 9000/9001 certification.
- Processed food consumers follow international standards and are highly sensitive to price and quality.
- Costa Rican hotels and international hotel chains long for guaranteed continuous product supply effectively meeting their needs.
- Excess bureaucratic procedures hinder the customs system.
- American companies must look for ways to help meet the needs of the HRI sector in Costa Rica.
- Free trade agreements (both current and in process) with Mexico, Chile, the Dominican Republic and Canada result in much competition to American products.
- Non-tariff import barriers exist. These include plant- and animal-health permits and, in some cases, health permits. American exporters serving the food service sector (HRI) must make sure they meet Costa Rica food security standards.

VII.3. GENERAL RECOMMENDATIONS TO U.S. FIRMS

- Contacting the headquarters of main hotel and fast-food restaurant chains operating in Costa Rica. Most of them are based in the United States.
- Creating direct coordination with Costa Rican hotels and restaurants.
- Developing an effective relationship with domestic executives, for instance, area managers and purchasing and marketing departments, to provide them with advice in relation to methods and practices to make business with U.S. companies.
- Participating in food and beverage fairs and shows in Costa Rica.
- Preparing papers in Spanish aimed at the products market, highlighting products and services offered by U.S. business firms to the Costa Rican food and beverage sector.
- American businesspeople in the sector must look for better ways to develop positive relationships with the Costa Rican food and beverage sector.
- In order to cut export/import costs, mixed shipments and consolidating several orders in one shipment are useful practices.

VIII. BACKGROUND

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